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REPORT TO THE CONGRESS

Audit Of Financial Statements Of The Veterans Canteen Service For Fiscal Year 1970

B-114818

Veterans Administration

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on our audit of the financial statements of the Veterans Canteen Service, Veterans Administration, for fiscal year 1970. Our audit was made pursuant to the act of August 7, 1946 (38 U.S.C. 4207).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Treasury, and the Administrator of Veterans Affairs

A handwritten signature in cursive script, reading "Thomas B. Staats", is positioned above the title of the Comptroller General.

Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
VA	Veterans Administration
VCS	Veterans Canteen Service

D I G E S T

WHY THE AUDIT WAS MADE

The General Accounting Office (GAO) is required by law to audit annually the financial statements of the Veterans Canteen Service of the Veterans Administration.

The Canteen Service is self-sustaining. Income is deposited into a revolving fund to finance its operations. All payments are made from that fund. Any balance at the close of the fiscal year in excess of the estimated requirements for the following fiscal year is to be deposited into the U.S. Treasury as miscellaneous receipts.

FINDINGS AND CONCLUSIONS

In GAO's opinion the financial statements in this report present fairly the financial position of the Veterans Canteen Service at June 30, 1970, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

From inception to June 30, 1970, the Canteen Service had accumulated profits of \$19,995,406 and had paid \$12,068,086 into the general fund of the Treasury. No funds were paid into the Treasury in fiscal year 1970. Canteen Service officials forecast that no funds would be available for payment into the general fund of the Treasury during fiscal year 1971.

In fiscal year 1970, net income amounted to \$1,031,266, an increase of \$125,088 over net income of the prior year. The Veterans Canteen Service attributed the increase primarily to increases in sales prices of selected items. These price increases were made to generate funds for additional working capital.

The additional capital was needed as a result of the conversion of the Canteen Service's manual payroll system to the Veterans Administration's computerized payroll system during fiscal year 1970.

The Canteen Service agreed to keep on deposit in the Treasury funds equal to a 30-day payroll of all Canteen Service employees.

As is common with most Government agencies, certain expenses, which GAO estimated to be about \$167,000, were not borne by the Canteen Service. Those expenses included the cost of space and utilities furnished without charge by the General Services Administration and the cost of the GAO audit.

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress pursuant to the provisions set forth in the United States Code (38 U.S.C. 4207), which requires GAO to make an annual audit of the accounts of the Veterans Canteen Service.

GENERAL COMMENTS

The General Accounting Office has made an audit of the financial statements of the Veterans Canteen Service (VCS) for the fiscal year ended June 30, 1970.

VCS was created by the act of August 7, 1946 (60 Stat. 887; 38 U.S.C. 4201), as an instrumentality of the United States within the Veterans Administration (VA) for the primary purpose of making available, at reasonable prices, merchandise and services essential to the comfort and well-being of veterans hospitalized or residing in hospitals and domiciliaries of VA. At June 30, 1970, merchandise and services were available through canteens at 167 VA hospitals, domiciliaries, and centers located throughout the United States and in Puerto Rico.

VCS is a self-sustaining operation. As provided by 38 U.S.C. 4204, all income is deposited into a revolving fund created to finance the establishment, maintenance, and operation of VCS, and all payments are made from this revolving fund. Under 38 U.S.C. 4206, any balance in the fund at the close of the fiscal year in excess of estimated requirements for the ensuing fiscal year is to be deposited in the U.S. Treasury as miscellaneous receipts.

From inception to June 30, 1970, VCS had accumulated profits of \$19,995,406 and had paid \$12,068,086 into the general fund of the Treasury. There were no excess funds available for payment to the Treasury in fiscal year 1970. VCS estimated that no funds would be available for payment into the general fund of the Treasury during fiscal year 1971.

In fiscal year 1970, net income amounted to \$1,031,266, an increase of \$125,088 over net income of the prior year. VCS attributed the increase in net income primarily to increases in sales prices of selected items. These price increases were made to generate funds for additional working capital.

We were advised by VCS officials that additional working capital was required as a result of the conversion of VCS's manual payroll system to VA's computerized payroll

system during fiscal year 1970. Under the manual payroll system, VCS kept payroll funds on deposit in commercial banks and issued its own payroll checks. Under VA's computerized payroll system, the payroll is prepared by VA and checks are issued by the Treasury Department. VCS officials stated that additional working capital was required because of the agreement to keep on deposit in the Treasury funds equal to one month's salary of all VCS employees. As of June 30, 1970, this amount totaled \$1,640,128.

As is common with most Government agencies, certain expenses relating to its activities are not borne by VCS and therefore are not included in its financial statements. These expenses include the cost of space and utilities furnished to VCS in buildings under the control of, or leased by, the General Services Administration and the cost of the annual audit by GAO. We estimated that the cost of space and utilities furnished to VCS was about \$124,000 for fiscal year 1970 and that the cost of the audit by GAO was about \$43,000.

SCOPE OF AUDIT

Our review consisted primarily of an examination of VCS's statement of financial condition as of June 30, 1970, statement of income and expenses, and statement of sources and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control.

The VCS internal audit staff makes selective audits of the canteens and annual audits of the field offices to determine the adequacy and effectiveness of the system of internal control, reliability of the financial records and reports, and compliance with prescribed administrative and operating policies. During our review we examined the work performed by the VCS's internal auditors. As a result of our evaluation of the coverage and quality of the internal auditors' work, we were able to reduce our own tests of the accounting records of VCS.

OPINION OF FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schs. 1, 2, and 3), which were prepared by VCS, present fairly the financial position of VCS at June 30, 1970, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FINANCIAL STATEMENTS

VETERANS CANTEEN SERVICE

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1970 AND 1969

	June 30	
	1970	1969
ASSETS		
CURRENT ASSETS		
Cash (note 1)		
Cash in U.S. Treasury (note 2)	\$ 2,413,195	\$ 547,337
Cash in banks and on hand	<u>2,720,217</u>	<u>3,139,850</u>
	5,133,412	3,687,187
Accounts receivable	454,959	514,970
Merchandise inventories, at cost	6,683,430	6,602,866
Prepaid expenses and other assets	<u>12,566</u>	<u>20,230</u>
Total current assets	<u>12,284,367</u>	<u>10,825,253</u>
FIXED ASSETS (note 3)		
Furniture, fixtures, and equipment	9,051,198	8,960,256
Less accumulated depreciation	<u>4,415,501</u>	<u>4,277,371</u>
Net fixed assets	<u>4,635,697</u>	<u>4,682,885</u>
Total assets	<u>\$16,920,064</u>	<u>\$15,508,138</u>
LIABILITIES AND EQUITY OF U S GOVERNMENT		
CURRENT LIABILITIES		
Accounts payable		
Trade creditors	\$ 848,007	\$ 643,430
U S Government agencies	<u>117,634</u>	<u>80,625</u>
	965,641	724,055
Employee's accrued annual leave	1,418,253	1,303,721
Accrued salaries and wages	767,926	676,113
Due other U S. Government agencies for employee's payroll deductions, accrued payroll taxes, and other payroll expenses	132,052	165,456
Unredeemed merchandise coupons	368,214	372,919
Other	<u>6,441</u>	<u>36,389</u>
Total current liabilities	<u>3,658,527</u>	<u>3,278,653</u>
EQUITY OF U.S. GOVERNMENT		
Appropriated funds--total capital advanced	4,965,000	4,965,000
Donations of property, principally from VA	369,217	368,431
Accumulated net income--prior years	18,964,140	18,057,962
Net income--current year	<u>1,031,266</u>	<u>906,178</u>
	25,329,623	24,297,571
Less excess funds paid into U S. Treasury from inception	<u>12,068,086</u>	<u>12,068,086</u>
Total equity of U S. Government	<u>13,261,537</u>	<u>12,229,485</u>
Total liabilities and equity of U S Government	<u>\$16,920,064</u>	<u>\$15,508,138</u>

The notes on page 12, which were prepared by the General Accounting Office, should be considered when reading this statement

SCHEDULE 2

VETERANS CANTEEN SERVICE

STATEMENT OF INCOME AND EXPENSES

FOR THE FISCAL YEARS ENDED

JUNE 30, 1970 AND 1969

	<u>Fiscal year ended June 30</u>	
	<u>1970</u>	<u>1969</u>
RETAIL DEPARTMENT.		
Sales	\$43,644,221	\$40,335,959
Cost of goods sold (note 4)	<u>33,951,371</u>	<u>31,436,468</u>
Gross profit	<u>9,692,850</u>	<u>8,899,491</u>
Expenses.		
Salaries and wages	6,185,964	5,717,211
Other	<u>1,316,242</u>	<u>1,243,110</u>
Total expenses	<u>7,502,206</u>	<u>6,960,321</u>
Profit, retail department	<u>2,190,644</u>	<u>1,939,170</u>
FOOD DEPARTMENT		
Sales	20,373,089	19,439,451
Cost of goods sold (note 4)	<u>11,213,098</u>	<u>10,520,291</u>
Gross profit	<u>9,159,991</u>	<u>8,919,160</u>
Expenses.		
Salaries and Wages	5,714,123	5,631,662
Other	<u>2,410,851</u>	<u>2,341,610</u>
Total expenses	<u>8,124,974</u>	<u>7,973,272</u>
Profit, food department	<u>1,035,017</u>	<u>945,888</u>
SERVICE DEPARTMENT (profits)		
Barber shops	99,642	134,455
Other	<u>179,988</u>	<u>191,129</u>
Profit, service department	<u>279,630</u>	<u>325,584</u>
TOTAL OPERATING PROFIT	<u>3,505,291</u>	<u>3,210,642</u>
ADMINISTRATIVE EXPENSES (field offices and central office)		
Salaries and wages	2,137,475	1,949,897
Travel and other expenses	<u>466,645</u>	<u>482,226</u>
Total administrative expenses	<u>2,604,120</u>	<u>2,432,123</u>
NET OPERATING PROFIT	901,171	778,519
OTHER INCOME--NET (note 4)	<u>130,095</u>	<u>127,659</u>
NET INCOME FOR YEAR (note 5)	<u>\$ 1,031,266</u>	<u>\$ 906,178</u>

The notes on page 12, which were prepared by the General Accounting Office, should be considered when reading this statement

V E T E R A N S C A N T E E N S E R V I C E

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

FOR FISCAL YEARS ENDED JUNE 30, 1970 AND 1969

	<u>Fiscal year ended June 30</u>	
	<u>1970</u>	<u>1969</u>
FUNDS PROVIDED BY:		
Sales of merchandise, including food, and revenues from services furnished	\$67,336,523	\$63,205,545
Purchase discounts and other revenues	<u>217,885</u>	<u>217,111</u>
Total funds provided	<u>\$67,554,408</u>	<u>\$63,422,656</u>
FUNDS APPLIED TO:		
Cost of merchandise, including food sold	\$45,851,899	\$42,639,645
Salaries and wages	16,031,159	15,368,354
Other expenses, excluding depreciation which does not require expenditure of funds (fiscal year 1970--\$600,671; fiscal year 1969--\$554,762)	3,951,622	3,864,266
Increase in working capital	<u>1,079,240</u>	<u>448,801</u>
Total funds applied to current costs and expenses	66,913,920	62,321,066
Purchase of equipment	640,488	1,054,584
Payment of excess funds in U.S. Treasury	<u>-</u>	<u>47,006</u>
Total funds applied	<u>\$67,554,408</u>	<u>\$63,422,656</u>

The notes on pages 12, which were prepared by the General Accounting Office, should be considered when reading this statement.

GAO NOTES TO FINANCIAL STATEMENTS

1. Under 38 U.S.C. 4206, any balance in the revolving fund at the close of the fiscal year in excess of the estimated requirements for the ensuing year shall be deposited into the Treasury as miscellaneous receipts. No funds were paid into the Treasury in fiscal year 1970.
2. The amount shown as cash in U.S. Treasury includes \$1,640,128 which VCS agreed to keep on deposit with the Treasury for payroll purposes.
3. Fixed assets are stated at cost with the exception of donated equipment which is stated at its appraised value at the time of acquisition.

Depreciation is computed on a straight-line basis at an annual composite rate of 8-1/3 percent. Depreciation charges of \$600,671 and \$554,762 are included in expenses for fiscal years 1970 and 1969, respectively.

4. The canteen at Gulfport, Mississippi, was destroyed by a hurricane during fiscal year 1970. The total loss amounted to about \$57,000. An inventory loss of about \$45,000 was charged to retail and food department cost of goods sold, and an equipment loss of about \$12,000 was charged to loss on disposition of fixed assets; the \$12,000 is included in OTHER INCOME--NET.
5. At June 30, 1968, VCS had not recorded on its books an accrued liability of \$39,993 representing payments made by the Bureau of Employees' Compensation, Department of Labor, on account of injury or death of employees or persons under the jurisdiction of VCS during fiscal years 1967 and 1968. During fiscal year 1969 VCS recorded this liability and charged it to current year's operations. Such costs are usually charged to the years in which they were incurred. Therefore, net income for fiscal year 1969 is understated by \$39,993.